

Severance Tax Credit Study Group

July 15, 2008

Colorado Department of Local Affairs

Severance Tax Credit Overview

- The current Colorado severance tax statute^{*} provides for the use of a credit against severance tax liability.
- For use in planning, design and construction, or expansion of public facilities due to impacts of new or expanded production.

^{*}CRS 39-29-107.5

Purpose of Severance Tax Credit

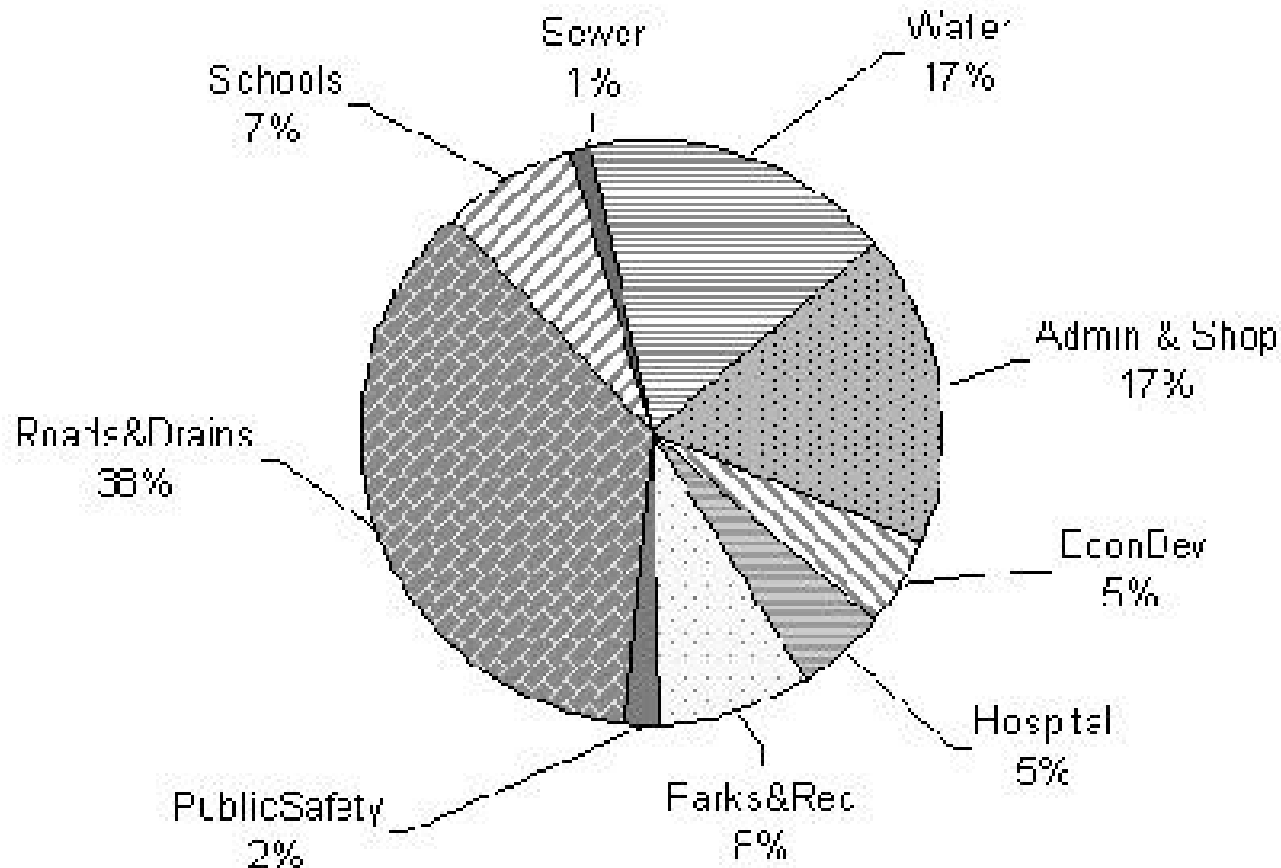
1. Provide risk sharing in "front-end finance."
2. Build a partnership between the mineral producers and local governments.
3. Ensure use of funds supports intentions of the statute.
4. Repayment to the Severance Tax Trust Fund cash "borrowed" in the claim of approved severance tax credits by the taxpayer.

History of the Colorado Severance Tax Credit

- In 1980, the tax credit tool established in statute.
- From 1980-1994, 55 tax credit financing proposals submitted to DOLA.
- Forty of the tax credit requests approved, totaling \$7.5 million.
- Majority of tax credits were used for infrastructure.

Most of the Credit Contributions Were for Infrastructure

Colorado Severance Tax Credits Approved

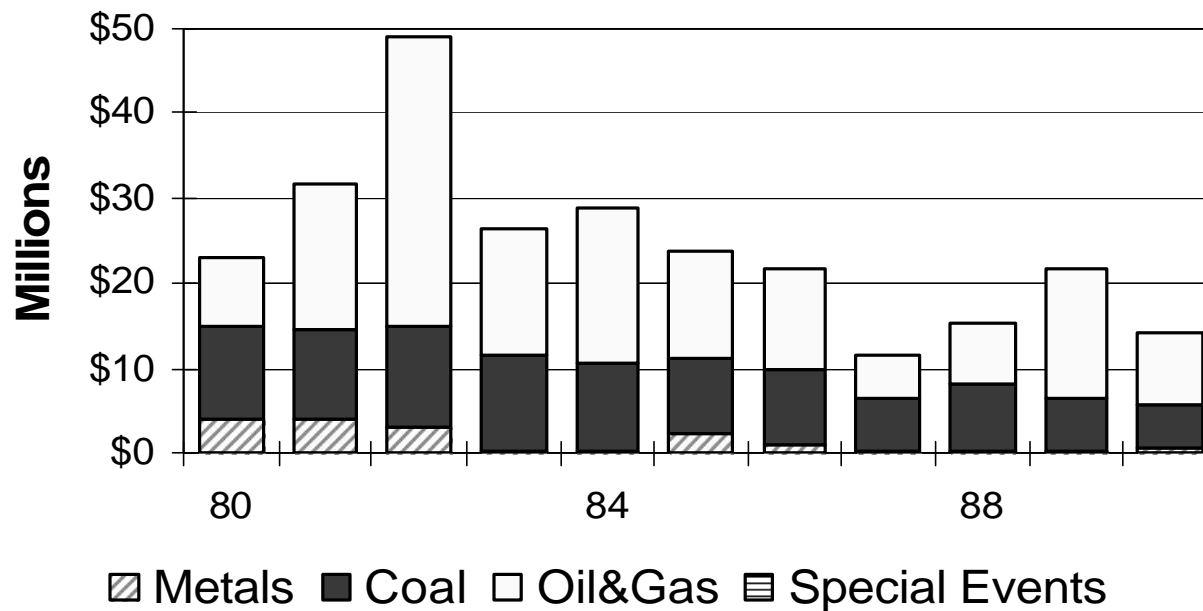


History of Severance Tax Credit Agreements Sumbitted

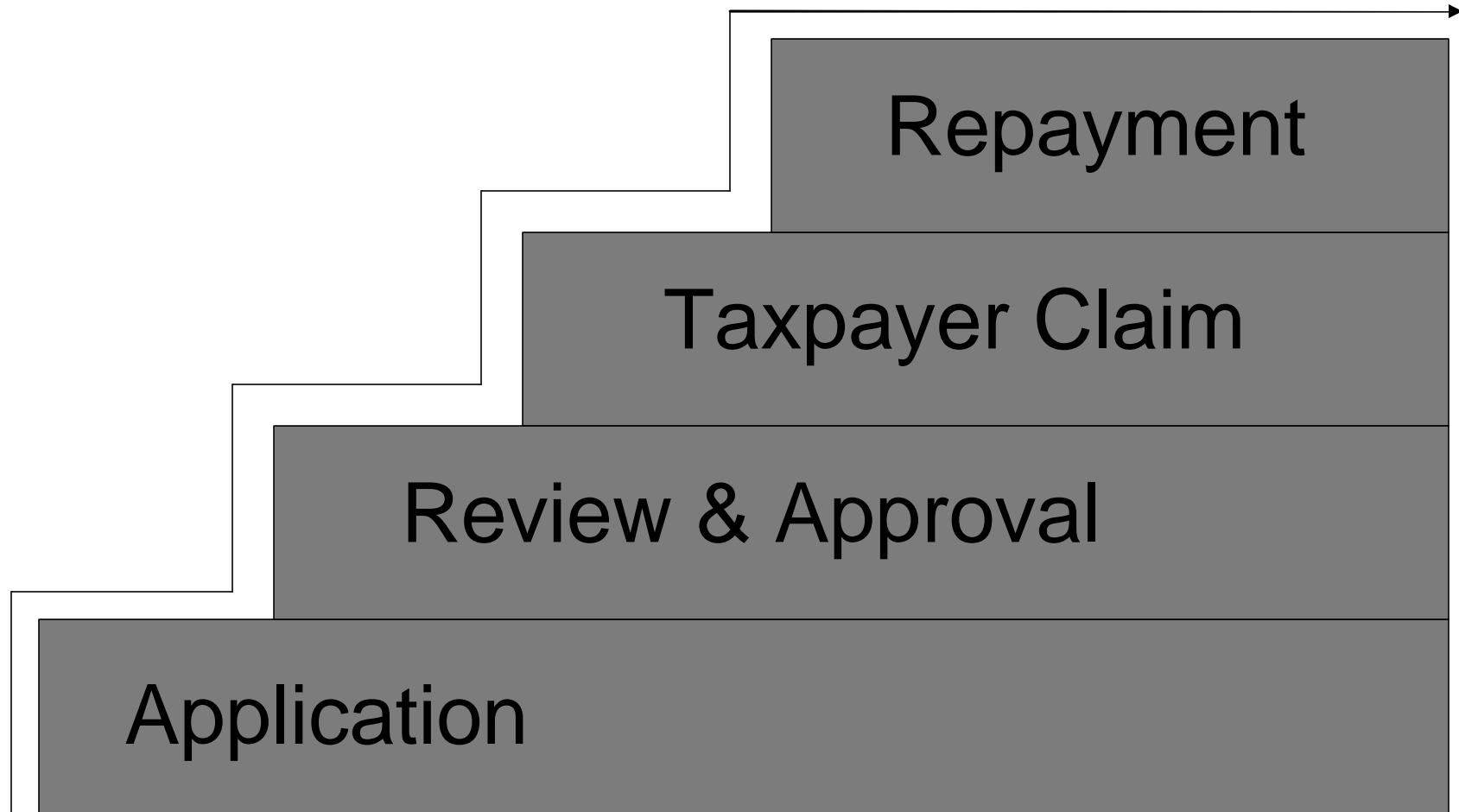
	PROJECT NAME	DATE	APPLICANT	Approve	TAXPAYER	TYPE
1	Pioneers Hospital	1980	Rio Blanco County	\$40,000	NA	Hospital
2	Canon City School	1980	Fremont School District	\$300,000	Amoco Cyprus	Schools
3	Meeker Water Tank	1981	Town of Meeker	\$165,000	NA	Water
4	Meeker Road	1981	Town of Meeker	\$0	NA	Roads&Drains
5	Meeker School Site	1981	Meeker School District	\$90,000	NA	Schools
6	Weld County Road	1981	Weld County	\$0	NA	Roads&Drains
7	Yampa Town Hall	1981	Town of Yampa	\$0	NA	Admin & Shop
8	Meeker Recreation	1981	Town of Meeker	\$0	NA	Parks&Rec
9	Rifle Bypass	1981	Garfield County	\$0	NA	Roads&Drains
10	Crawford Water Meters	1982	Town of Crawford	\$47,520	ARCO West Elk Coal Mine	Water
11	Parachute Land	1982	Town of Parachute	\$136,000	NA	Admin & Shop
12	Paonia High School Site	1982	Delta School Dist. 50	\$76,450	NA	Schools
13	Pioneers Hospital Planning	1982	Rio Blanco County	\$30,000	Northern Coal Mine	Hospital
14	Paonia Town Hall	1983	Town of Paonia	\$157,000	ARCO West Elk Coal Mine	Admin & Shop
15	Craig Golf Course	1982	Moffat County	\$30,000	ColoWyo Coal Mine	Parks&Rec
16	Hotchkiss Streets/Drainage	1982	Town of Hotchkiss	\$73,000	ARCO West Elk Coal Mine	Roads&Drains
17	Delta County Jail	1982	Delta County	\$155,000	ARCO West Elk Coal Mine	PublicSafety
18	Routt County Road #33	1983	Routt County	\$956,000	TwentyMile Coal Mine	Roads&Drains
19	Moffat County Golf Course	1983	Moffat County	\$30,000	Empire Coal Mine	Parks&Rec
20	Loudy-Simpson Park	1983	Moffat County	\$58,000	Empire Coal Mine	Parks&Rec
21	Craig/Moffat Co. Library	1983	Moffat County	\$30,000	Empire Coal Mine	Admin & Shop
22	Delta School District	1984	Delta School Dist. 50	\$80,190	ARCO West Elk Coal Mine	Schools
23	Crawford Town Shop	1984	Town of Crawford	\$32,080	ARCO West Elk Coal Mine	Admin & Shop
24	Hotchkiss Water	1984	Town of Hotchkiss	\$158,940	ARCO West Elk Coal Mine	Water
25	Paonia Infrastructure	1984	Town of Paonia	\$196,790	ARCO West Elk Coal Mine	Admin & Shop
26	Somerset Sewer	1984	Gunnison County	\$95,000	ARCO West Elk Coal Mine	Sewer
27	Craig Recreation Facilities	1985	City of Craig	\$180,000	Empire Coal Mine	Parks&Rec
28	Craig Recreation Facilities	1985	City of Craig	\$250,000	ColoWyo Coal Mine	Parks&Rec
29	Yampa Valley Golf Course	1985	Moffat County	\$64,330	Empire Coal Mine	Parks&Rec
30	Craig Hospital Imps	1985	Moffat County	\$9,500	ColoWyo Coal Mine	Hospital
31	Meeker Maintenance Shop	1985	Town of Meeker	\$75,000	ColoWyo Coal Mine	Admin & Shop
32	Routt County Road #33	1985	Routt County	\$734,222	TwentyMile Coal Mine	Roads&Drains
33	Craig Drainage	1986	City of Craig	\$350,000	ColoWyo Coal Mine	Roads&Drains
34	Meeker Water	1986	Town of Meeker	\$190,000	ColoWyo Coal Mine	Water
35	Meeker Hospital	1986	Rio Blanco County	\$30,000	ColoWyo Coal Mine	Admin & Shop
36	Meeker Town Park	1986	East Rio Blanco Rec. Dist.	\$0	NA	Parks&Rec
37	Moffat Co.Hospital Equip	1986	Moffat County	\$0	NA	Hospital
38	Meeker Drainage	1986	Town of Meeker	\$380,000	ColoWyo Coal Mine	Roads&Drains
39	Craig Drainage	1987	City of Craig	\$0	NA	Roads&Drains
40	Craig Drainage	1987	City of Craig	\$250,000	ColoWyo Coal Mine	Roads&Drains
41	Moffat Memorial Hospital	1987	Moffat County	\$0	NA	Hospital
42	Yampa Valley Golf Course	1987	Moffat County	\$0	NA	Parks&Rec
43	Craig Reservoir	1987	City of Craig	\$215,500	NA	Water
44	Meeker Industrial Park	1987	Town of Meeker	\$350,000	ColoWyo Coal Mine	EconDev
45	Charfuels Study	1988	Moffat County	\$25,000	ColoWyo Coal Mine	EconDev
46	Craig Reservoir	1988	City of Craig	\$250,000	NA	Water
47	Rangely Water	1988	Town of Rangely	\$0	NA	Water
48	Rio Blanco Pioneer Hosp.	1989	Rio Blanco County	\$0	NA	Hospital
49	Moffat Hospital Tax	1989	Moffat County	\$300,000	Empire Coal Mine	Hospital
50	Meeker Airport Imps.	1989	Rio Blanco County	\$375,000	ColoWyo Coal Mine	Admin & Shop
51	Craig Water Diversion	1990	City of Craig	\$0	NA	Water
52	Moffat Hospital	1990	Moffat County		NA	Hospital
53	Yampa River Diversion	1990	City of Craig	\$250,000	NA	Water
54	Rangely Downtown Devel.	1990	Town of Rangely	\$250,000	NA	Admin & Shop
55	Craig Wastewater Lagoon	1994	City of Rangely		ColoWyo Coal Mine	Sewer

Severance Tax Revenues in the 1980's Were Quite Different from Today

State Total Severance Tax Revenue
by Mineral Type in the 1980's



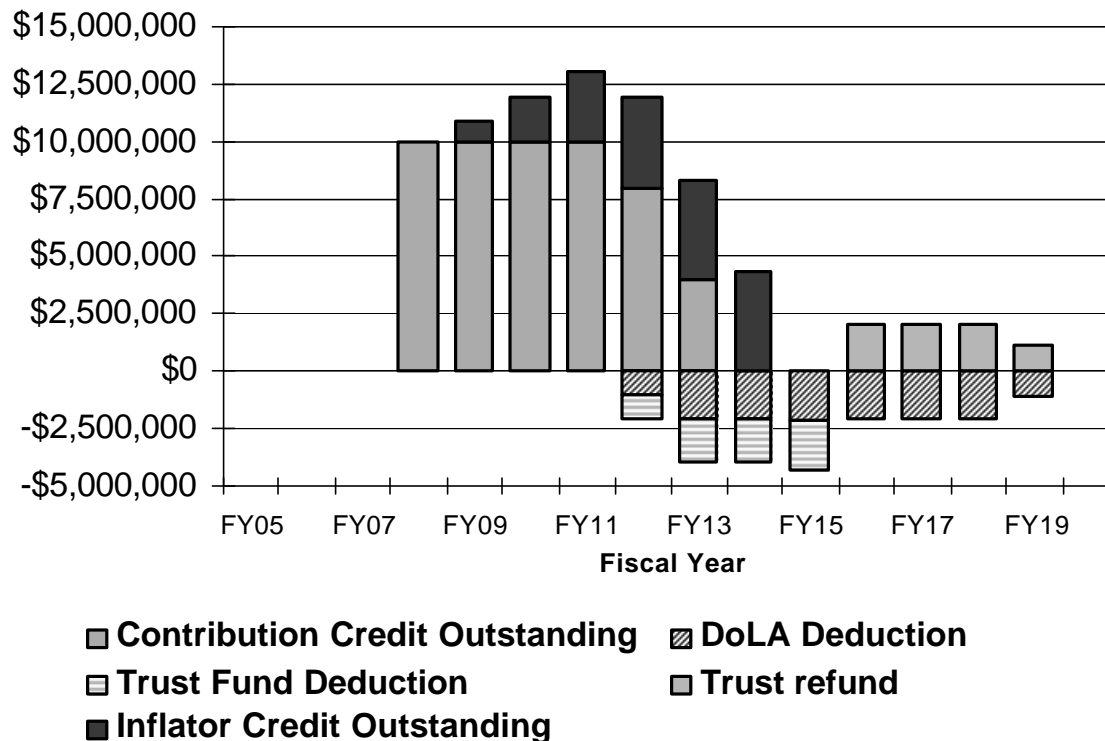
Severance Tax Credit Process: Four Categories



Step 12: Repayment To the Trust Fund

A multi year calculation of the cash flow of severance tax credit. The chart below shows a hypothetical \$10 million credit approved in fiscal year 2008.

Severance Tax Credit Sequence of Events



DOLA Tax Credit Evaluation Policy

The focus of the review is on the five items required in the agreement:

- Who?
- Why?
- What?
- How Much?
- When?

Who Is Applying for the Tax Credit?

- Is the local government properly identified and authorized?
- Is the taxpayer's corporate identity defined properly to confine use of the tax credit to severance tax liabilities from the specified operations?
- Have other jurisdictions affected by the taxpayer's operations been considered?
- Has the contribution been reviewed locally and prioritized against pending impact grant applications from the area?

Why is the Local Government Requesting Approval of the Tax Credit?

- Have the jurisdiction and related local government entities considered the full agenda of need due to the taxpayer's operations?
- Is the type of community facility improvement supported by the contribution a relative priority over other types of needed improvements?

What Financing Agreement Has Been Proposed?

- Has the taxpayer and local jurisdiction reached a solid agreement on the specifics of the contribution?
- Does the written agreement clearly define the contribution to assure verification of the outcome in future years when credit is claimed?

How Much Is the Requested Tax Credit?

- Is the potential dollar credit a deduction from severance tax revenue an appropriate scale relative to the need and purpose?
- What portion of the taxpayer's severance tax payments does the credit absorb?
- After the credit agreement, is there sufficient severance liability after the credit is claimed to repay the lost revenue to the Severance Tax Trust Fund?

When Will the Project Tax Credit Contribution Occur?

- Is the contribution contingent on other events and actions?
- Are the parties clear about the agreement and that the contribution will occur?

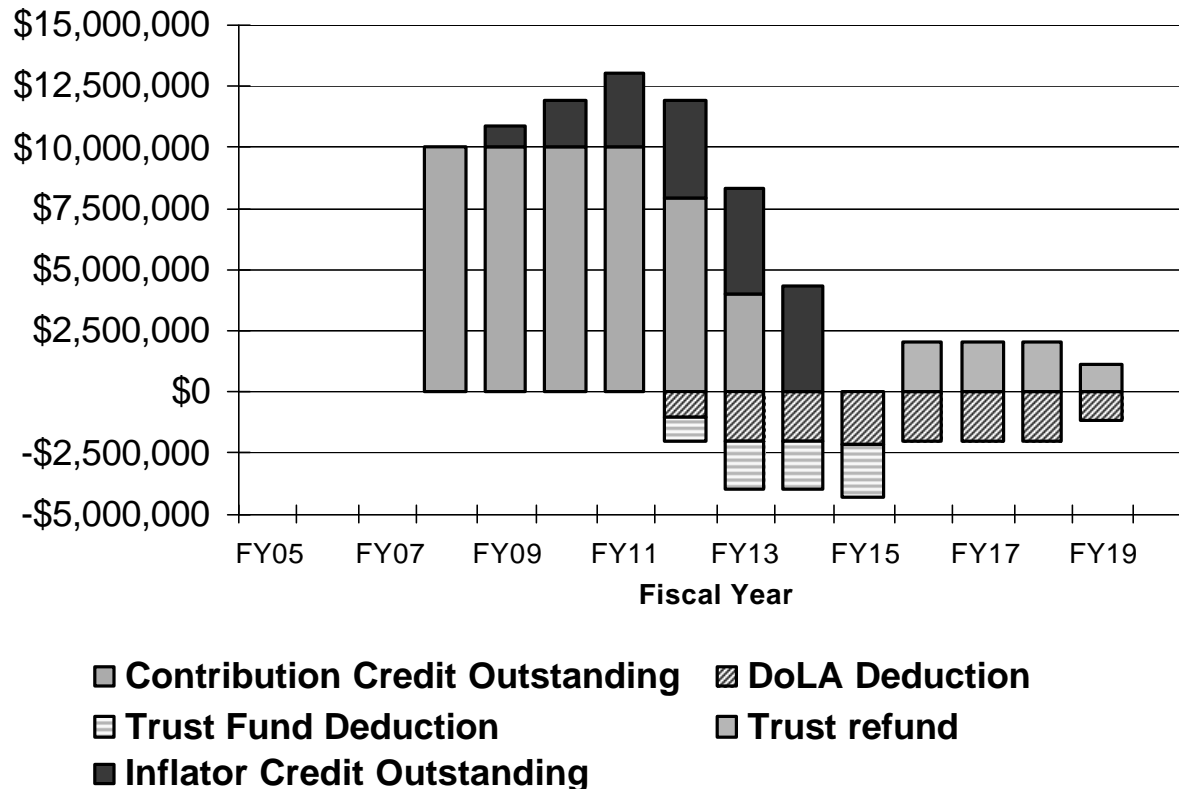
Severance Tax In the State Budget

- Budget Forecasting with Tax Credit
- Impact of Tax Credit use on Direct Distribution and Grant Program
- Severance Tax is not TABOR exempt

Step 12: Repayment To the Trust Fund

A multi year calculation of the cash flow of severance tax credit. The chart below shows a hypothetical \$10 million credit approved in fiscal year 2008.

Severance Tax Credit Sequence of Events



TABOR Constraints

- Potential Impact of Tabor and Tax Credit Changes - “Net revenue gain”

BREAK

DOLA Tier III Grants Program

Large community projects funding option

- Multi-million dollar
- Multi-year
- Multi-jurisdictional

Study Group Potential Options

1. Use “Tier 3” grants/loan program for the large local government projects and continue the low emphasis on the severance tax credit.
2. Use the existing statute without new legislation and promote use of the severance credit through marketing and policy.
3. Recommend modest statutory changes to modernize the current statute.
4. Recommend major modification of the current statute.
5. Create a new severance tax credit statute.
6. Establish new finance options for large local government projects.

Schedule and Agendas for Future Meetings

- August 14 from 1 - 4pm @ CCI
 - Local government perspective on severance tax credits
- September 4 from 1 - 4pm @ CCI
 - Industry perspective on the severance tax credit
- October 1 from 1 - 4pm @ CCI
 - Develop recommendations for change